

LENOX MUNICIPAL UTILITIES

FINANCIAL STATEMENTS

DECEMBER 31, 2009



LENOX MUNICIPAL UTILITIES  
LENOX, IOWA  
DECEMBER 31, 2009

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LENOX MUNICIPAL UTILITIES  
OFFICIALS  
DECEMBER 31, 2009

<u>NAME OF OFFICIAL</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Dennis Bunch	Trustee - Chairman	May 1, 2014
Wayne Haidsiak	Trustee	May 1, 2012
Winston Tyler	Trustee	May 1, 2010
David D. Ferris	Superintendent	-

**DEAN M. BROICH, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANT**

2835 S. 132<sup>nd</sup> Street  
Omaha, Nebraska 68144  
(402) 829-0121

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Lenox Municipal Utilities  
Lenox, Iowa

To the Board of Trustees:

I have audited the accompanying financial statements of the Lenox Municipal Utilities, Lenox, Iowa, a component unit of the City of Lenox, as of and for the years ended December 31, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Lenox Municipal Utilities' management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in footnote 1, the financial statements present only the Lenox Municipal Utilities and do not purport to, and do not, present fairly the financial position of the City of Lenox, Lenox, Iowa, and the changes in its financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lenox Municipal Utilities as of December 31, 2009 and 2008, and the results of its operations and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Management's discussion and analysis is not required to be part of the basic financial statements, but is necessary to supplement the basic financial statements according to accounting principles generally accepted in the United States of America. Lenox Municipal Utilities has not presented management's discussion and analysis in these financial statements.

In accordance with *Government Auditing Standards*, I have also issued a report dated January 22, 2010 on my consideration of Lenox Municipal Utility's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information on pages 25 through 26 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in my audit of the financial statements and, in my opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.



Certified Public Accountant

Omaha, Nebraska  
January 22, 2010

LENOX MUNICIPAL UTILITIES

BALANCE SHEETS

DECEMBER 31, 2009 AND 2008

ASSETS

	2009			Combined Memorandum Only
	Electric	Water	Cable	
Current assets:				
Cash	\$ 70,154	\$ 3,602	\$ 33,345	\$ 107,101
Receivables	134,978	45,834	7,572	188,384
Prepaid expenses	10,641	4,124	1,732	16,497
Inventories	89,117	-	-	89,117
Total current assets	<u>304,890</u>	<u>53,560</u>	<u>42,649</u>	<u>401,099</u>
Noncurrent assets:				
Investments	816,996	151,116	172,787	1,140,899
Bond sinking fund - restricted	51,000	48,800	-	99,800
Bond reserve fund - restricted	60,000	73,000	-	133,000
Deferred compensation - restricted	62,120	29,004	8,790	99,914
Total noncurrent assets	<u>990,116</u>	<u>301,920</u>	<u>181,577</u>	<u>1,473,613</u>
Capital assets - net of depreciation	<u>1,869,721</u>	<u>1,359,052</u>	<u>1,291,736</u>	<u>4,520,509</u>
Total assets	<u>\$ 3,164,727</u>	<u>\$ 1,714,532</u>	<u>\$ 1,515,962</u>	<u>\$ 6,395,221</u>

LIABILITIES AND NET ASSETS

Current liabilities:				
Accounts payable - trade	\$ 82,885	\$ 27,457	\$ 138,286	\$ 248,628
Current portion of long-term debt	55,000	41,000	-	96,000
Accrued interest	1,474	2,472	7,788	11,734
Accrued expenses	3,938	1,512	761	6,211
Customer deposits	22,504	-	-	22,504
Total current liabilities	<u>165,801</u>	<u>72,441</u>	<u>146,835</u>	<u>385,077</u>
Long-term liabilities:				
Deferred compensation	62,120	29,004	8,790	99,914
Note and bonds payable	175,000	929,000	1,335,000	2,439,000
Total long-term liabilities	<u>237,120</u>	<u>958,004</u>	<u>1,343,790</u>	<u>2,538,914</u>
Net assets:				
Investment in capital assets - net of related debt	1,639,721	389,052	(43,264)	1,985,509
Net assets - restricted	111,000	121,800	-	232,800
Net assets - unrestricted	1,011,085	173,235	68,601	1,252,921
Total net assets	<u>2,761,806</u>	<u>684,087</u>	<u>25,337</u>	<u>3,471,230</u>
Total liabilities and net assets	<u>\$ 3,164,727</u>	<u>\$ 1,714,532</u>	<u>\$ 1,515,962</u>	<u>\$ 6,395,221</u>

The accompanying notes are an integral part of the financial statements.

LENOX MUNICIPAL UTILITIES

BALANCE SHEETS

DECEMBER 31, 2009 AND 2008

ASSETS

	2008			Combined Memorandum Only
	Electric	Water	Cable	
Current assets:				
Cash	\$ 88,634	\$ 16,520	\$ 34,903	\$ 140,057
Receivables	111,757	48,283	19,009	179,049
Prepaid expenses	8,193	3,161	1,425	12,779
Inventories	102,944	-	-	102,944
Total current assets	311,528	67,964	55,337	434,829
Noncurrent assets:				
Investments	1,082,417	158,474	384,676	1,625,567
Bond sinking fund - restricted	60,000	48,800	-	108,800
Bond reserve fund - restricted	60,000	73,000	-	133,000
Deferred compensation - restricted	50,480	24,084	7,254	81,818
Total noncurrent assets	1,252,897	304,358	391,930	1,949,185
Capital assets - net of depreciation	2,003,359	1,448,874	1,080,906	4,533,139
Total assets	\$ 3,567,784	\$ 1,821,196	\$ 1,528,173	\$ 6,917,153

LIABILITIES AND NET ASSETS

Current liabilities:				
Accounts payable - trade	\$ 412,630	\$ 26,903	\$ 11,380	\$ 450,913
Current portion of long-term debt	50,000	37,000	-	87,000
Accrued interest	1,749	2,566	30,416	34,731
Accrued expenses	422	2,223	1,699	4,344
Customer deposits	16,546	-	-	16,546
Total current liabilities	481,347	68,692	43,495	593,534
Long-term liabilities:				
Deferred compensation	50,480	24,084	7,254	81,818
Note and bonds payable	230,000	970,000	1,335,000	2,535,000
Total long-term liabilities	280,480	994,084	1,342,254	2,616,818
Net assets:				
Investment in capital assets - net of related debt	1,723,359	441,874	(254,094)	1,911,139
Net assets - restricted	120,000	146,000	-	266,000
Net assets - unrestricted	962,598	170,546	396,518	1,529,662
Total net assets	2,805,957	758,420	142,424	3,706,801
Total liabilities and net assets	\$ 3,567,784	\$ 1,821,196	\$ 1,528,173	\$ 6,917,153

The accompanying notes are an integral part of the financial statements.



LENOX MUNICIPAL UTILITIES  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009			Combined Memorandum Only
	Electric	Water	Cable	
Operating revenues:				
Current use charges	\$ 1,477,791	\$ 628,707	\$ 354,389	\$ 2,460,887
Miscellaneous and rentals	37,371	13,159	-	50,530
Total operating revenues	<u>1,515,162</u>	<u>641,866</u>	<u>354,389</u>	<u>2,511,417</u>
Operating expenses:				
Administrative	149,474	64,324	159,697	373,495
Sales and use taxes	33,004	20,641	18,869	72,514
Payroll and payroll taxes	328,198	153,029	58,787	540,014
Office expense	11,890	7,578	7,011	26,479
Repairs and maintenance	29,543	5,493	5,355	40,391
Plant expense	822,782	323,233	108,110	1,254,125
Distribution expense	43,717	27,938	21,134	92,789
Bad debts	3,069	1,824	-	4,893
Depreciation	133,638	89,822	47,631	271,091
Total operating expenses	<u>1,555,315</u>	<u>693,882</u>	<u>426,594</u>	<u>2,675,791</u>
Operating loss	<u>(40,153)</u>	<u>(52,016)</u>	<u>(72,205)</u>	<u>(164,374)</u>
Non-operating revenues/(expenses):				
Interest income	4,966	1,388	1,868	8,222
Interest and debt service expense	<u>(9,395)</u>	<u>(32,078)</u>	<u>(46,750)</u>	<u>(88,223)</u>
Total non-operating revenues/(expenses)	<u>(4,429)</u>	<u>(30,690)</u>	<u>(44,882)</u>	<u>(80,001)</u>
Changes in net assets before transfers	(44,582)	(82,706)	(117,087)	(244,375)
Transfers from City	<u>431</u>	<u>8,373</u>	<u>-</u>	<u>8,804</u>
Changes in net assets	(44,151)	(74,333)	(117,087)	(235,571)
Net assets, beginning of year	<u>2,805,957</u>	<u>758,420</u>	<u>142,424</u>	<u>3,706,801</u>
Net assets, end of year	<u>\$ 2,761,806</u>	<u>\$ 684,087</u>	<u>\$ 25,337</u>	<u>\$ 3,471,230</u>

The accompanying notes are an integral part of the financial statements.

LENOX MUNICIPAL UTILITIES  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2008			Combined Memorandum Only
	Electric	Water	Cable	
Operating revenues:				
Current use charges	\$ 1,208,623	\$ 635,645	\$ 142,954	\$ 1,987,222
Miscellaneous and rentals	90,526	11,872	13,570	115,968
Total operating revenues	<u>1,299,149</u>	<u>647,517</u>	<u>156,524</u>	<u>2,103,190</u>
Operating expenses:				
Administrative	136,466	53,980	20,430	210,876
Sales and use taxes	22,816	18,018	9,305	50,139
Payroll and payroll taxes	289,446	138,095	41,594	469,135
Office expense	18,172	12,702	3,333	34,207
Repairs and maintenance	11,307	7,110	4,379	22,796
Plant expense	677,710	311,565	99,565	1,088,840
Distribution expense	28,264	16,760	4,321	49,345
Bad debts	3,224	1,372	771	5,367
Depreciation	117,662	90,773	18,928	227,363
Total operating expenses	<u>1,305,067</u>	<u>650,375</u>	<u>202,626</u>	<u>2,158,068</u>
Operating income (loss)	<u>(5,918)</u>	<u>(2,858)</u>	<u>(46,102)</u>	<u>(54,878)</u>
Non-operating revenues/(expenses):				
Interest income	37,818	10,241	12,294	60,353
Interest and debt service expense	<u>(11,257)</u>	<u>(34,979)</u>	<u>(30,416)</u>	<u>(76,652)</u>
Total non-operating revenues/(expenses)	<u>26,561</u>	<u>(24,738)</u>	<u>(18,122)</u>	<u>(16,299)</u>
Changes in net assets before transfers	20,643	(27,596)	(64,224)	(71,177)
Transfers from City	<u>563</u>	<u>1,033</u>	<u>225</u>	<u>1,821</u>
Changes in net assets	21,206	(26,563)	(63,999)	(69,356)
Net assets, beginning of year	<u>2,784,751</u>	<u>784,983</u>	<u>206,423</u>	<u>3,776,157</u>
Net assets, end of year	<u>\$ 2,805,957</u>	<u>\$ 758,420</u>	<u>\$ 142,424</u>	<u>\$ 3,706,801</u>

The accompanying notes are an integral part of the financial statements.

LENOX MUNICIPAL UTILITIES  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009			Combined Memorandum Only
	Electric	Water	Cable	
Cash flows from operating activities:				
Cash received from customers	\$ 1,491,941	\$ 644,315	\$ 365,826	\$ 2,502,082
Cash payments to suppliers	(1,402,371)	(452,151)	(194,515)	(2,049,037)
Cash payments for employees, payroll taxes and benefits	(328,198)	(153,029)	(58,787)	(540,014)
Net cash provided (used) by operating activities	(238,628)	39,135	112,524	(86,969)
Cash flows from noncapital financing activities:				
Transfers from City	431	8,373	-	8,804
Net cash provided from noncapital financing activities	431	8,373	-	8,804
Cash flows from capital and financing activities:				
Payment on principal	(50,000)	(37,000)	-	(87,000)
Interest paid	(9,670)	(32,172)	(69,378)	(111,220)
Purchase of fixed assets	-	-	(258,461)	(258,461)
Net cash used for capital and financing activities	(59,670)	(69,172)	(327,839)	(456,681)
Cash flows from investing activities:				
Purchase of investments	(488,839)	(168,178)	(280,652)	(937,669)
Proceeds from investments	763,260	175,536	492,541	1,431,337
Interest on investments	4,966	1,388	1,868	8,222
Net cash provided by investing activities	279,387	8,746	213,757	501,890
Net decrease in cash	(18,480)	(12,918)	(1,558)	(32,956)
Cash - beginning of year	88,634	16,520	34,903	140,057
Cash - end of year	<u>\$ 70,154</u>	<u>\$ 3,602</u>	<u>\$ 33,345</u>	<u>\$ 107,101</u>

The accompanying notes are an integral part of the financial statements.

LENOX MUNICIPAL UTILITIES  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2008			Combined Memorandum Only
	Electric	Water	Cable	
Cash flows from operating activities:				
Cash received from customers	\$ 1,284,124	\$ 642,868	\$ 152,581	\$ 2,079,573
Cash payments to suppliers	(555,739)	(416,887)	(136,123)	(1,108,749)
Cash payments for employees, payroll taxes and benefits	(289,446)	(138,095)	(41,594)	(469,135)
Net cash provided (used) by operating activities	438,939	87,886	(25,136)	501,689
Cash flows from noncapital financing activities:				
Transfers from City	563	1,033	225	1,821
Net cash provided from noncapital financing activities	563	1,033	225	1,821
Cash flows from capital and financing activities:				
Proceeds from revenue bonds	-	-	1,335,000	1,335,000
Payment on principal	(50,000)	(417,171)	-	(467,171)
Interest paid	(11,257)	(46,388)	-	(57,645)
Purchase of fixed assets	(789,820)	-	(1,099,834)	(1,889,654)
Net cash provided (used) for capital and financing activities	(851,077)	(463,559)	235,166	(1,079,470)
Cash flows from investing activities:				
Purchase of investments	(574,610)	(139,336)	(1,328,716)	(2,042,662)
Proceeds from investments	965,772	477,408	1,105,431	2,548,611
Interest on investments	37,818	10,241	12,294	60,353
Net cash provided (used) by investing activities	428,980	348,313	(210,991)	566,302
Net increase (decrease) in cash	17,405	(26,327)	(736)	(9,658)
Cash - beginning of year	71,229	42,847	35,639	149,715
Cash - end of year	<u>\$ 88,634</u>	<u>\$ 16,520</u>	<u>\$ 34,903</u>	<u>\$ 140,057</u>

The accompanying notes are an integral part of the financial statements.

LENOX MUNICIPAL UTILITIES  
STATEMENTS OF CASH FLOWS-CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

SCHEDULE OF NET CASH FROM OPERATING ACTIVITIES

	<u>2009</u>			<u>Combined</u>
	<u>Electric</u>	<u>Water</u>	<u>Cable</u>	<u>Memorandum</u>
				<u>Only</u>
Reconciliation of operating loss to net cash provided by operating activities				
Operating loss	\$ (40,153)	\$ (52,016)	\$ (72,205)	\$ (164,374)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation	133,638	89,822	47,631	271,091
Changes in assets and liabilities:				
Receivables	(23,221)	2,449	11,437	(9,335)
Prepaid expenses	(2,448)	(963)	(307)	(3,718)
Inventories	13,827	-	-	13,827
Accounts payable	(329,745)	554	126,906	(202,285)
Accrued expenses	3,516	(711)	(938)	1,867
Customer deposits	5,958	-	-	5,958
Net cash provided (used) by operating activities	<u>\$ (238,628)</u>	<u>\$ 39,135</u>	<u>\$ 112,524</u>	<u>\$ (86,969)</u>

The accompanying notes are an integral part of the financial statements.

LENOX MUNICIPAL UTILITIES  
STATEMENTS OF CASH FLOWS-CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

SCHEDULE OF NET CASH FROM OPERATING ACTIVITIES

	2008			Combined Memorandum Only
	Electric	Water	Cable	
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating loss	\$ (5,918)	\$ (2,858)	\$ (46,102)	\$ (54,878)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	117,662	90,773	18,928	227,363
Changes in assets and liabilities:				
Receivables	(15,025)	(4,649)	(3,943)	(23,617)
Prepaid expenses	3,841	(290)	1,142	4,693
Inventories	(9,420)	-	-	(9,420)
Accounts payable	348,135	3,871	7,210	359,216
Accrued expenses	(1,982)	1,039	(2,371)	(3,314)
Customer deposits	1,646	-	-	1,646
Net cash provided (used) by operating activities	<u>\$ 438,939</u>	<u>\$ 87,886</u>	<u>\$ (25,136)</u>	<u>\$ 501,689</u>

The accompanying notes are an integral part of the financial statements.

LENOX MUNICIPAL UTILITIES  
STATEMENTS OF BUDGETED AND ACTUAL CASH RECEIPTS AND DISBURSEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

ELECTRIC FUND

	2009 Original & Final Budgeted	2009 Actual	2008 Actual
Revenues	\$ 1,624,300	\$ 1,497,899	\$ 1,285,770
Expenses	<u>1,380,250</u>	<u>1,870,165</u>	<u>964,493</u>
Excess revenues over/(under) expenses from operations	244,050	(372,266)	321,277
Other revenues	<u>25,000</u>	<u>(3,998)</u>	<u>27,124</u>
Excess revenues over/(under) expenses	<u><u>\$ 269,050</u></u>	<u><u>\$ (376,264)</u></u>	<u><u>\$ 348,401</u></u>

WATER FUND

Revenues	\$ 677,402	\$ 644,315	\$ 642,868
Expenses	<u>766,865</u>	<u>695,002</u>	<u>645,755</u>
Excess revenues under expenses from operations	(89,463)	(50,687)	(2,887)
Other revenues	<u>10,000</u>	<u>(22,317)</u>	<u>(23,705)</u>
Excess revenues over/(under) expenses	<u><u>\$ (79,463)</u></u>	<u><u>\$ (73,004)</u></u>	<u><u>\$ (26,592)</u></u>

CABLE FUND

Revenues	\$ 418,500	\$ 365,826	\$ 152,581
Expenses	<u>472,850</u>	<u>300,933</u>	<u>198,929</u>
Excess revenues under expenses from operations	(54,350)	64,893	(46,348)
Other revenues	<u>3,000</u>	<u>(44,882)</u>	<u>(17,897)</u>
Excess revenues over/(under) expenses	<u><u>\$ (51,350)</u></u>	<u><u>\$ 20,011</u></u>	<u><u>\$ (64,245)</u></u>

COMBINED - (MEMORANDUM ONLY)

Revenues	\$ 2,720,202	\$ 2,508,040	\$ 2,081,219
Expenses	<u>2,619,965</u>	<u>2,866,100</u>	<u>1,809,177</u>
Excess revenues over/(under) expenses from operations	100,237	(358,060)	272,042
Other revenues	<u>38,000</u>	<u>(71,197)</u>	<u>(14,478)</u>
Excess revenues over/(under) expenses	<u><u>\$ 138,237</u></u>	<u><u>\$ (429,257)</u></u>	<u><u>\$ 257,564</u></u>

The accompanying notes are an integral part of the financial statements.

LENOX MUNICIPAL UTILITIES  
STATEMENTS OF BUDGETED AND ACTUAL CASH RECEIPTS AND DISBURSEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

ELECTRIC FUND

	2008 Original & Final Budgeted	2008 Actual	2007 Actual
Revenues	\$ 1,294,734	\$ 1,285,770	\$ 1,189,026
Expenses	<u>1,469,360</u>	<u>964,493</u>	<u>1,154,990</u>
Excess revenues over/(under) expenses from operations	(174,626)	321,277	34,036
Other revenues	<u>50,000</u>	<u>27,124</u>	<u>72,400</u>
Excess revenues over/(under) expenses	<u><u>\$ (124,626)</u></u>	<u><u>\$ 348,401</u></u>	<u><u>\$ 106,436</u></u>

WATER FUND

Revenues	\$ 662,700	\$ 642,868	\$ 615,157
Expenses	<u>669,161</u>	<u>645,755</u>	<u>626,378</u>
Excess revenues over/(under) expenses from operations	(6,461)	(2,887)	(11,221)
Other revenues	<u>10,000</u>	<u>(23,705)</u>	<u>26,370</u>
Excess revenues over/(under) expenses	<u><u>\$ 3,539</u></u>	<u><u>\$ (26,592)</u></u>	<u><u>\$ 15,149</u></u>

CABLE FUND

Revenues	\$ 154,700	\$ 152,581	\$ 155,108
Expenses	<u>3,026,300</u>	<u>198,929</u>	<u>173,336</u>
Excess revenues over/(under) expenses from operations	(2,871,600)	(46,348)	(18,228)
Other revenues	<u>3,003,000</u>	<u>(17,897)</u>	<u>6,660</u>
Excess revenues over/(under) expenses	<u><u>\$ 131,400</u></u>	<u><u>\$ (64,245)</u></u>	<u><u>\$ (11,568)</u></u>

COMBINED - (MEMORANDUM ONLY)

Revenues	\$ 2,112,134	\$ 2,081,219	\$ 1,959,291
Expenses	<u>5,164,821</u>	<u>1,809,177</u>	<u>1,954,704</u>
Excess revenues over/(under) expenses from operations	(3,052,687)	272,042	4,587
Other revenues	<u>3,063,000</u>	<u>(14,478)</u>	<u>105,430</u>
Excess revenues over expenses	<u><u>\$ 10,313</u></u>	<u><u>\$ 257,564</u></u>	<u><u>\$ 110,017</u></u>

The accompanying notes are an integral part of the financial statements.



LENOX MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009

1. Summary of Significant Accounting Policies

The Reporting Entity:

Lenox Municipal Utilities has been identified as a component unit of the City of Lenox, Lenox, Iowa. The Utilities, for financial statement purposes, include all of the funds and account groups relevant to the operation of the electric, water and communication services. Lenox Municipal Utilities provides billing and collection services for the City of Lenox, however those amounts have been eliminated for financial statement purposes. These financial statements do not reflect any activity or transactions of the City of Lenox and do not present consolidated information.

Basis of Accounting and Presentation:

Lenox Municipal Utilities is governed by a Board of Trustees that are appointed by the Mayor of Lenox, Iowa. The Utilities provide electricity, water and communication services to the City of Lenox and the surrounding community. The Utilities operate as enterprise funds which utilize the accrual basis of accounting. The accrual basis of accounting recognizes revenues when earned and expenses when incurred.

Operating revenues generally result from providing services and delivering those services in connection with ongoing operations of supplying electric, water and communication services. Receipts and disbursements not meeting this definition are reported as non-operating revenues.

Lenox Municipal Utilities apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Fund Accounting:

The electric, water and communication funds are operated similar to business enterprises. The intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges. Those costs include depreciation of capital assets and interest expense.

Cash and Cash Equivalents:

For the purpose of the presentation of the statement of cash flows, the electric, water and communication funds do not treat investments, restricted or unrestricted as cash or cash equivalents.

LENOX MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2009

1. Summary of Significant Accounting Policies – continued:

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allowance for Doubtful Accounts:

At December 31, 2009 and 2008, management considered accounts receivable to be fully collectible and, therefore, these financial statements do not contain an allowance for doubtful accounts.

Reclassifications:

Certain amounts or presentations in the December 31, 2008 statements may have been reclassified to conform to the December 31, 2009 presentation. Changes in net assets remained unchanged as a result of any reclassifications.

2. Inventories

Inventories consist mainly of electrical materials and supplies and are valued at lower of cost or market value (first-in, first-out).

3. Deposits and Investments

The Utilities are authorized to invest in interest bearing savings accounts, interest bearing money market accounts, interest bearing checking accounts, obligations of the United States government or its agencies and instrumentalities, certificates of deposit and other evidence of deposit at federally insured Iowa depository institutions approved and secured pursuant to Chapter 453; Iowa Public Agency Investment Trust and certain other investments with prior approval by the board of trustees.

Deposits and investments are stated at cost, which approximates market. Interest on deposits and investments is accrued in the financial statements. The Utility's deposits are entirely covered by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds. Accordingly, Lenox Municipal Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

LENOX MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2009

4. Property and equipment

Depreciation is provided using the straight-line method over the estimated economic useful lives of the respective assets.

	2009			
	Balance 1/1/09	Additions	Retirements & Disposals	Balance 12/31/09
<u>Electric Fund</u>				
Buildings and plants	\$ 1,906,771	\$ -	\$ -	\$ 1,906,771
Distribution system	1,572,984	-	-	1,572,984
Sub-station	98,653	-	-	98,653
Transmission lines	425,994	-	-	425,994
Total	4,004,402	-	-	4,004,402
Less: accumulated depreciation	(2,001,043)	(133,638)	-	(2,134,681)
Property and equipment - net	<u>\$ 2,003,359</u>	<u>\$ (133,638)</u>	<u>\$ -</u>	<u>\$ 1,869,721</u>
<u>Water Fund</u>				
Land	\$ 32,000	\$ -	\$ -	\$ 32,000
Buildings and plants	886,062	-	-	886,062
Distribution systems	1,724,397	-	-	1,724,397
Automotive equipment	58,936	-	-	58,936
Total	2,701,395	-	-	2,701,395
Less: accumulated depreciation	(1,252,521)	(89,822)	-	(1,342,343)
Property and equipment - net	<u>\$ 1,448,874</u>	<u>\$ (89,822)</u>	<u>\$ -</u>	<u>\$ 1,359,052</u>
<u>Communication Fund</u>				
Distribution systems	\$ 1,099,833	\$ 258,462	\$ -	\$ 1,358,295
Less: accumulated depreciation	(18,927)	( 47,632)	-	(66,559)
Property and equipment - net	<u>\$ 1,080,906</u>	<u>\$ 210,830</u>	<u>\$ -</u>	<u>\$ 1,291,736</u>

	2008			
	Balance 1/1/08	Additions	Retirements & Disposals	Balance 12/31/08
<u>Electric Fund</u>				
Buildings and plants	\$ 1,846,983	\$ 59,788	\$ -	\$ 1,906,771
Distribution system	842,952	730,032	-	1,572,984
Sub-station	98,653	-	-	98,653
Transmission lines	425,994	-	-	425,994
Total	3,214,582	789,820	-	4,004,402
Less: accumulated depreciation	(1,883,381)	(117,662)	-	(2,001,043)
Property and equipment - net	<u>\$ 1,331,201</u>	<u>\$ (672,158)</u>	<u>\$ -</u>	<u>\$ 2,003,359</u>

LENOX MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2009

4. Property and equipment - continued

	Balance 1/1/08	Additions	Retirements & Disposals	Balance 12/31/08
<u>Water Fund</u>				
Land	\$ 32,000	\$ -	\$ -	\$ 32,000
Buildings and plants	886,062	-	-	886,062
Distribution systems	1,724,397	-	-	1,724,397
Automotive equipment	58,936	-	-	58,936
Total	2,701,395	-	-	2,701,395
Less: accumulated depreciation	(1,161,748)	(90,773)	-	(1,252,521)
Property and equipment - net	\$ 1,539,647	\$ (90,773)	\$ -	\$ 1,448,874
	Balance 1/1/07	Additions	Retirements & Disposals	Balance 12/31/08
<u>Communication Fund</u>				
Distribution systems	\$ -	\$ 1,099,833	\$ -	\$ 1,099,833
Less: accumulated depreciation	-	(18,927)	-	(18,927)
Property and equipment - net	\$ -	\$ 1,080,906	\$ -	\$ 1,080,906

5. Pension and Retirement Benefits

Lenox Municipal Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute a percentage of their annual covered salary and Lenox Municipal Utilities is required to contribute a percentage of annual covered payroll expenditures. Contribution requirements and percentages are established by State statute. Lenox Municipal Utilities contribution to IPERS for the years ended December 31, 2009 and 2008 were \$41,089 and \$37,819, respectively, equal to the required contributions for each year.

6. Deferred Compensation

Lenox Municipal Utilities offer all full-time employees the option of participating in the ICMA Retirement Corporation's Deferred Compensation Plan. Under the plan, an employee may elect to have up to a maximum of 25% of compensation or \$15,000 a year, whichever is smaller, withheld and invested with ICMA. The salary of the employee that is deferred is not taxable for federal income tax purposes to the employee until retirement, but is taxable for social security and state income taxes and is included in determining IPERS contributions (see Note 5). The employer retains ownership of the fund until paid or made available to participants, subject only to the claims of the government's general creditors. A written contract exists with each plan participant and the Utilities responsibility is limited to the payment of the deferred compensation to the plan. For the years ended December 31, 2009 and 2008, employee contributions amounted to \$3,855 and \$5,645, respectively. The unfunded balance at December 31, 2009 and 2008 amounted to \$ -0- and \$340, respectively.

LENOX MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2009

7. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Utilities annually adopt a budget on the "cash basis" following required public notice and hearing. Accordingly, budget to actual comparisons are presented on a non-GAAP budgetary basis in the accompanying financial statements. The adjustments necessary to reconcile the differences between the two methods of accounting are summarized as follows:

	<u>2009</u>			<u>Combined Memorandum Only</u>
	<u>Electric</u>	<u>Water</u>	<u>Cable</u>	
Changes in Net Assets				
- budgetary (cash basis)	<u>\$(376,264)</u>	<u>\$ (73,004)</u>	<u>\$ 20,011</u>	<u>\$ (429,257)</u>
Increase (decrease) in:				
Receivables	23,221	(2,449)	(11,437)	9,335
Prepaid expenses	2,448	963	307	3,718
Inventories	(13,827)	-	-	(13,827)
(Increase)/decrease in:				
Accounts payable	329,745	(554)	(126,906)	202,285
Accrued expenses	(3,516)	711	938	(1,867)
Other current liabilities	<u>(5,958)</u>	<u>-</u>	<u>-</u>	<u>(5,958)</u>
Changes in Net Assets				
- accrual (GAAP basis)	<u><u>\$ (44,151)</u></u>	<u><u>\$ (74,333)</u></u>	<u><u>\$ (117,087)</u></u>	<u><u>\$ (235,571)</u></u>

  

	<u>2008</u>			<u>Combined Memorandum Only</u>
	<u>Electric</u>	<u>Water</u>	<u>Cable</u>	
Changes in Net Assets				
- budgetary (cash basis)	<u>\$ 348,401</u>	<u>\$ (26,592)</u>	<u>\$ (64,245)</u>	<u>\$ 257,564</u>
Increase (decrease) in:				
Receivables	15,025	4,649	3,943	23,617
Prepaid expenses	(3,841)	290	1,142	(2,409)
Inventories	9,420	-	-	9,420
(Increase)/decrease in:				
Accounts payable	(348,135)	(3,871)	(7,210)	(359,216)
Accrued expenses	1,982	(1,039)	2,371	3,314
Other current liabilities	<u>(1,646)</u>	<u>-</u>	<u>-</u>	<u>(1,646)</u>
Changes in Net Assets				
- accrual (GAAP basis)	<u><u>\$ 21,206</u></u>	<u><u>\$ (26,563)</u></u>	<u><u>\$ (63,999)</u></u>	<u><u>\$ (69,356)</u></u>

LENOX MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2009

8. Electric Revenue Notes

In 2003, Lenox Municipal Utilities was the sub-recipient of a community development block grant issued to the City of Lenox, Iowa by the Iowa Department of Economic Development. The City of Lenox received CDGB funds in the amount of \$400,000. The City of Lenox entered into a construction and operation agreement and designated the Lenox Municipal Utilities a sub-recipient of the grant money to construct and operate a wind turbine for the benefit of the Lenox community. In conjunction with the construction of the wind turbine, Lenox Municipal Utilities was required to provide all funds in excess of the \$400,000 grant. Electric revenue notes were issued in the amount of \$515,000, to replace construction reserves for extension lines which were used in the construction of the wind turbine. The electric revenue notes dated May 1, 2003 were issued in \$5,000 denominations or multiples thereof, and mature on May 1 of each year. Interest on the notes are payable semi-annually on May 1 and November 1 of each year the notes are outstanding. Interest paid in 2009 and 2008 on the electric revenue notes amounted to \$9,670 and \$11,258, respectively.

Changes in long-term electric revenue notes are as follows:

2009				
	Balance 1/1/09	Principal Additions	Principal Repayments	Balance 12/31/09
Electric revenue notes	\$ 280,000	\$ -	\$ 50,000	\$ 230,000
	<u>\$ 280,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 230,000</u>
2008				
	Balance 1/1/08	Principal Additions	Principal Repayments	Balance 12/31/08
Electric revenue notes	\$ 330,000	\$ -	\$ 50,000	\$ 280,000
	<u>\$ 330,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 280,000</u>

Principal and interest payments on the electric revenue notes mature as follows:

	<u>Principal</u>	<u>Interest</u>
2010	\$ 55,000	\$ 7,869
2011	55,000	5,861
2012	60,000	3,645
2013	<u>60,000</u>	<u>1,230</u>
	<u>\$ 230,000</u>	<u>\$ 18,605</u>

The operating agreement provides that the City of Lenox shall repay Lenox Municipal Utilities for the contributions made by Lenox Municipal Utilities to purchase the wind turbine. The City also agreed to reimburse the Utility for amounts which will be adequate for the operation, maintenance, insurance, and long-term equipment repair and replacement cost of the wind turbine generator. The operating agreement is in effect for a period of 20 years from the effective date of the agreement. The agreement provides that at the time of termination of the agreement, the City of Lenox will assign all accompanying responsibilities for the wind turbine generator to Lenox Municipal Utilities.

LENOX MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2009

8. Electric Revenue Notes - continued

Note payments, sinking funds and related reserves are payable solely from the net revenues of the electric system. The notes are callable May 1, 2010.

Funds are restricted in conjunction with the issuance of electric revenue notes to assist with the construction and operation of a wind turbine. The electric reserve fund is funded by the gross revenues of the electric system and shall be used to maintain and operate the electric system, and after payment of the operating expenses shall, to the extent herein provided, be used to pay the principal and interest on the electric revenue notes and to create and maintain the electric revenue sinking fund. At December 31, 2009 and 2008, funds accumulated amounted to \$60,000 and \$60,000, respectively.

Electric revenue sinking fund payments are required on a monthly basis to be used solely for payment of principal and interest on the electric revenue notes. Note sinking payments are to be funded at no less than one-twelfth of the installment maturing each May 1. At December 31, 2009 and 2008, electric revenue sinking funds amounted to \$51,000 and \$60,000, respectively.

9. Water Revenue Bond, Series 2006

On October 6, 2006, Lenox Municipal Utilities issued water revenue bonds in the amount of \$1,150,000 with interest at the rate of 3 percent for the constructing of improvements and extensions to the water distribution system. Interest on the bonds is payable semi-annually on June 1 and December 1 of each year the notes are outstanding. Principal payments on the bonds commenced on June 1, 2008 and are due annually thereafter until paid in full. Interest paid in 2009 and 2008 on the 2006 water revenue bond amounted to \$29,655 and \$30,852, respectively.

Changes in long-term debt for the 2006 water revenue bonds are as follows:

2009			
	Balance 1/1/08	Principal Additions	Principal Repayments
2006 water revenue bonds	\$ 1,007,000	\$ -	\$ 37,000
	<u>\$ 1,007,000</u>	<u>\$ -</u>	<u>\$ 37,000</u>
			Balance 12/31/08
			\$ 970,000
			<u>\$ 970,000</u>

  

2008			
	Balance 1/1/08	Principal Additions	Principal Repayments
2006 water revenue bonds	\$ 1,050,000	\$ -	\$ 43,000
	<u>\$ 1,050,000</u>	<u>\$ -</u>	<u>\$ 43,000</u>
			Balance 12/31/08
			\$ 1,007,000
			<u>\$ 1,007,000</u>

Maturities of the Series 2006 bonds are as follows:

	Principal	Interest
2010	\$ 41,000	\$ 28,485
2011	43,000	27,225
2012	44,000	25,920
2013	45,000	24,585
2014	45,000	23,205
2015 - 2019	247,000	93,990
2020 - 2024	287,000	52,740
2025 - 2027	<u>263,000</u>	<u>9,090</u>
	<u>\$ 970,000</u>	<u>\$ 285,150</u>

LENOX MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2009

9. Water Revenue Bond, Series 2006 - continued

Funds are restricted in conjunction with the 2006 Water Revenue Bond. The reserve fund is to be transferred to the sinking fund whenever necessary to prevent or remedy a default in the payment of the principal and interest on the 2006 Water Revenue Bond. At December 31, 2009 and 2008, reserve funds amounted to \$73,000.

Bond sinking fund payments are required to be used solely for payment of principal and interest on the 2006 Water Revenue Bond. Bond sinking payments are to be funded at no less than one-twelfth of the installment maturing June 1 of each year. At December 31, 2009 and 2008, sinking funds amounted to \$48,800.

10. Long-term Debt – Communication Fund

Lenox Municipal Utilities entered into a note payable on May 8, 2008 in the amount of \$1,335,000 for the purposes of paying the costs of constructing a Municipal Communications System. Interest is payable on May 1 and November 1 of each year until paid. The note bears interest at the rate of 3.50%. Debt service payments are payable solely from the net revenues of the communication system. The note matures May 1, 2011, and no principal is due on the note until May 1, 2011.

Changes in the long-term note payable are as follows:

		2009			
		Balance 1/1/09	Principal Additions	Principal Repayments	Balance 12/31/09
Note payable – Iowa Finance		\$ 1,335,000	\$ -	\$ -	\$ 1,335,000
Authority – Series 2008		\$ 1,335,000	\$ -	\$ -	\$ 1,335,000
		2008			
		Balance 1/1/08	Principal Additions	Principal Repayments	Balance 12/31/08
Note payable – Iowa Finance		\$ -	\$ 1,335,000	\$ -	\$ 1,335,000
Authority – Series 2008		\$ -	\$ 1,335,000	\$ -	\$ 1,335,000
Maturities of long-term debt are as follows:		Principal		Interest	
2010		\$ -		\$ 46,725	
2011		1,335,000		23,363	
		\$ 1,335,000		\$ 70,088	

11. Net Assets

Net assets generally consist of the following three categories:

Net assets invested in capital assets, net of related debt - consists of capital assets, net of accumulated depreciation, reduced by related outstanding notes, bonds, or other debt.

Restricted net assets – are net assets which result when constraints or restrictions are placed on the use of net assets. The restrictions are generally imposed by external lending sources or by law.



LENOX MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2009

Unrestricted net assets - are those assets not meeting the definition of the two preceding categories. Reservations of unrestricted net assets may be imposed by the management of the Utility, however reservations do not restrict net assets in any manner.

12. Risk Management

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

13. Off Balance Sheet and Concentration of Credit Risk

Accounts receivables are due for electric, water and communication charges to customers of Lenox, Iowa and the surrounding community. None of the receivables are collateralized. To date, these concentrations of credit risk have not had an adverse effect on the results of operations of the Utilities.

14. Commitments and Contingencies

In conjunction with the construction of the Municipal Communications System, the Utilities entered into construction contracts totaling \$1,830,864. The remaining balances committed on the contracts and included in accounts payable at December 31, 2009 amounted to \$109,355.

**DEAN M. BROICH, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANT**

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL**  
**OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS**  
**BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH**  
**GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees  
Lenox Municipal Utilities  
Lenox, Iowa

I have audited the financial statements of Lenox Municipal Utilities, a component unit of the City of Lenox, Iowa, as of and for the year ended December 31, 2009, and have issued my report thereon dated January 22, 2010. My report expressed an unqualified opinion on the financial statements, which were prepared by me in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered Lenox Municipal Utility's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lenox Municipal Utility's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Lenox Municipal Utility's internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Lenox Municipal Utility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Lenox Municipal Utility's financial statements that is more than inconsequential will not be prevented or detected by Lenox Municipal Utility's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Lenox Municipal Utility's internal control.

Internal Control Over Financial Reporting - continued

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that the lack of segregation of duties is, and will remain, a material weakness. Therefore, I do not consider prior year reportable conditions as having been resolved.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lenox Municipal Utility's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about Lenox Municipal Utilities operations for the year ended December 31, 2009 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of Lenox Municipal Utilities. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Lenox Municipal Utility's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on Lenox Municipal Utility's responses, I did not audit the Lenox Municipal Utility's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management and employees, and other parties to which the Lenox Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the courtesies and assistance extended to me during the audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you.



Certified Public Accountant

Omaha, Nebraska  
January 22, 2010

LENOX MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2009

Findings Related to the Financial Statements:

Reportable conditions:

- A. Segregation of duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee can act as a check on those of another. Essentially one individual currently has total access and control of the accounting functions, including customer billings, receipts, disbursements, as well as the related reconciliations for the various accounting and reporting functions.

Recommendation - While segregation of duties is difficult with a limited number of office employees, management should continue to regularly review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel and Utility officials.

Response - Based on monthly reviews of internally prepared financial statements, approval of all payments prior to signatures and overall supervision by the superintendent and the Board, there appear to be sufficient compensating controls. A full time employee has been hired to assist in the billing and collection cycles.

Conclusion - Response accepted.

- B. Facsimile signature stamps - Facsimile signature stamps are used to facilitate payment of vouchers. Without proper controls or retention of the stamps internal control, unauthorized use of the stamps on disbursements or other documents could occur.

Recommendation - Eliminate the stamps or provide adequate controls against their unauthorized use.

Response - The stamps are retained by office personnel, locked in the Utilities safe, and are only used by the respective board member for check signing purposes. All other documents are signed manually. Also, all vouchers are approved prior to payment by the Board of Trustees and bank reconciliations are prepared monthly.

Conclusion - Response accepted.

Instances on non-compliance:

No matters were noted.

LENOX MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2009

Other Findings Related to Required Statutory Reporting:

1. Certified budget – Expenditures for the year ended December 31, 2009 exceeded amounts budgeted Chapter 384.20 of the Code of Iowa states in part, “public monies may not be expended or encumbered except under an annual or continuing appropriation. Accordingly, the budget should have been amended before amounts expended exceeded budgeted amounts.
2. Questionable disbursements – No disbursements were noted that did not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
3. Travel expenses - No disbursements of the Lenox Municipal Utilities money for travel expenses of spouses of Utility officials or employees were noted.
4. Business transactions - All business transactions noted between the Utilities and Utility officials appeared to be in the normal course of business and appeared to be at arm’s length.
5. Bond coverage - Surety bond coverage of the Utilities officials and employees is in accordance with statutory provisions. The amount of the coverage should continue to be reviewed annually, or more often if needed, to ensure that the coverage is adequate for current operations.
6. Board minutes – No transactions were noted that were required to have been approved in the minutes but were not.
7. Deposits and investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utilities’ investment policies were noted.
8. Revenue notes, bonds and long-term debt – No violations of the revenue notes, bonds or long-term debt were noted.
9. Telecommunication services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.